



TOWNCENTER
PARTNERS LLC
OUR MISSION IS JUSTICE

Rent to College Students

The ability to recognize a good opportunity is crucial to the success of any real estate investor. With ever-changing market conditions and real estate trends, it can be hard to keep a pulse on the best investments. However, one of the most underutilized strategies could be one that produces the most consistent results: **renting to college students.**

Many investors are intimidated at the thought of renting to tenants who have never lived on their own before, and rightfully so. Despite legitimate concerns, owning property near a university and renting it to college students can be very advantageous for investors. An average house near a college town can yield 30 to 40 percent higher rents than the same house five miles away.

These types of rental properties can hold their value for years while generating massive amounts of income. Keep reading to learn why renting to college students makes sense for real estate investors, as well as the benefits associated with this underrated rental strategy.



Benefits Of Renting To College Students

With millions of new students entering universities across the country every year, college towns represent a goldmine for real estate investors. Campuses consistently provide a source of demand for housing, and can help drive higher rents (and higher yields) for property owners.

Renting to college students offers immense benefits for investors looking to expand their investment portfolio, capitalize on passive income opportunities, and create a retirement strategy. It can even represent a key opportunity for investors who have low marketing budgets.

The following benefits highlight why renting to college students can be a smart strategy for any investor:

- College towns have built in demand.
- The costs of student housing can equal high rental yield for investors.
- Many college students will have lower expectations compared to traditional renters.
- Rental income can be more consistent for a number of reasons.

Rental Demand

In 2018, [The College Board](#) released a study on undergraduate student life and found, on average, 44 percent of undergraduate students live off campus. The numbers vary slightly between public and private universities, with 46 and 29 percent of students living off campus, respectively. However, considering the average enrollment at both public and private institutions, these percentages equate to high numbers of students searching for off campus housing.

The popularity of off-campus housing in college towns is not new information. In fact, according to an [Urban Institute](#) study, roughly the same number of students were living off campus in the early 2010s. This study, along with several others, suggests that the high rental demand seen in college towns has been consistent through time.

While rental demand may see small fluctuations within the academic year, college towns consistently produce a steady housing demand from students, professors and staff. This built-in demand makes investing in college town rentals highly attractive for investors.

Higher Rental Yield

College town real estate is attractive to investors for a number of reasons, but mainly because it pays. As a result of the high demand, college rental properties can generate higher cash flow than traditional investment properties. It is not uncommon to see student housing generating more income than similar houses in a nearby market. Keep in mind that while the rental prices can be high, on campus room and board can be even more costly for students. This is why a large number of students will opt to find housing elsewhere.

According to a study from [Home.com](https://www.home.com), investors with a student housing properties may achieve a return on investment (ROI) upwards of ten percent. To put that statistic into perspective: many real estate investors will consider an ROI above five percent to be a good investment.

Low Expectations

When it comes to student housing investment properties, tenant expectations are going to be different. Many students have never lived on their own before; if they have, it has been in a dorm room. Therefore, investors may notice that their properties' conditions don't have to be as pristine as their more expensive rental properties when providing for college students. For example, the quality of paint or flooring does not have to be perfect as the property will likely be repainted or the carpet replaced with tenant turnover.

While property maintenance is always crucial as a real estate investor, there is less need to worry about the property's condition in college markets. Instead of requesting stainless steel appliances or other high-quality amenities, students will likely be more concerned with proximity to campus, parking and overall layout. This should come as great news for investors hoping to avoid expensive property upgrades, as high demand will remain, even if the property is not home to the latest and greatest features.

Consistency

One of the biggest concerns when it comes to rental properties is tenants not being able to pay rent on time, or at all. Luckily, when renting to students, investors will typically encounter extreme consistency for a number of reasons.

Firstly, many college students receive financial assistance from their parents. According to [CNBC](#), up to 23 percent of college students' costs are paid for by their parents. While students may not seem like reliable tenants, their parents' financial backing makes them just as reliable as any other tenant.

Additionally, when investors buy a house to rent out to students, it is likely that multiple students live in the same property. While collecting multiple rent checks may be a hassle at the beginning of the month, this setup can be a blessing in disguise. If one tenant has a short term problem and cannot pay, the investor will still receive partial rent from the other tenants. In comparison, if a family or single tenant faces short-term problems, investors risk losing their entire rent that month.



Rent To College Students: Potential Risks

Many people are hesitant to invest in student housing because they fear the worst. How do you know student tenants will be reliable? How do you prevent property damage from parties or high occupancy rates? How do you rent to tenants who have never lived on their own before?

These are all legitimate questions, but the fact of the matter remains: renting to students represents an attractive opportunity. Instead of being scared at the thought of student housing, premeditate the potential risks of these markets. Doing this will help investors minimize risk and prepare for anything that could arise.

The following outlines the potential risks associated with renting to students, and how investors should react:

- College rentals often have an increased risk of damage.
- There is high turnover between academic years.
- Investors may fear reliability when working with first-time renters.

Property Damage

Property damage is every investor's worst nightmare. Investors renting to college students may deal with a combination of noise complaints, increased wear and tear and a lack of maintenance on the home. However, all hope should not be lost. Investors can prepare for these risks in a number of ways: saving an emergency fund, screening tenants, requiring a parental contact and more.

One of the biggest ways to prevent issues when renting to students is by keeping the lines of communication open. Tenants should know exactly who to call if there are plumbing problems or electrical issues. By maintaining open communication with tenants, investors can help ensure small problems are caught before they grow into something worse. Investors should also consider requiring renters insurance.

Turnover Rate

There is always going to be high tenant turnover in student housing markets. Students are often in and out of their university in four years and aren't likely to live in the same property the entire time. Student rental property investments are also likely to come with short-term leases, rather than annual ones. This can leave many investors afraid of potential vacancies.

While there is not much an investor can do to avoid high turnover when operating in college markets, there are things they can do to avoid the negative impacts associated with this trend. Firstly, investors can offer short-term summer leases or discounted summer rates to avoid vacancies after the academic year has ended. The increased rental yield during the year should more than cover the difference.

Investors can also hire a landlord or property manager to keep track of the property. In many college towns, there are a high number of property management companies who specialize in these markets. They are prepared to organize lease signings, marketing and more—helping investors keep profits high and vacancies low.

Rent Reliability

Another worry investors face when renting to students is not receiving rent on time. Although student housing should be approached differently than typical rental properties, the tenant application and screening processes should not change. Students are not going to have a lengthy credit history or income to report on, but investors can still be thorough.

An example tenant application should ask for references, a parental contact, and even information about where the rent will be coming from. Many students have loans or financial aid while others will receive rent payments from their parents. It only becomes a potential red flag when a candidate leaves these questions blank.

Investors should also prepare themselves in the event a rent check comes in late. They can do this by setting aside a rainy day fund to cover property expenses in case income is less than expected. It is always a smart idea for investors to have an emergency fund in case of surprise maintenance issues or similar problems, but especially when they are working with tenants lacking strong rental histories.

Town Regulations & Local Restrictions

It's important to note that a student housing real estate investment will be handled differently market to market than typical rental units. In most areas, investors are required to submit an initial application to see if they are even allowed to rent to students. These are safety regulations put in place to protect students living in high occupancy areas.

Towns will often measure the windows, count fire alarms and inspect the overall state of the property. Investors may then be required to get an annual license in order to continue renting the property to students. While these processes are associated with some fees; many investors find that the costs are offset by the increased cash flow.

Investors should also be aware of residential laws that regulate how many tenants can live in one property. It is not uncommon for towns to have maximum occupancy laws. Investors should be prepared to abide by these rules as well as ensure that their tenants are following the same regulations as well. Investors should be sure to include the maximum occupancy number in their leases to protect themselves in the event the student tenants attempt to sidestep these laws.

Summary: Are College Town Rental Properties A Good Investment?

Although the benefits of *renting to college students* clearly outweigh the risks, investors should be fully aware of the challenges that can come with undertaking this strategy. Understanding the potential risks is crucial for minimizing their impact. Those who do so may realize consistent, attractive profits through this investing strategy.

info@yourtcp.com

